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AZERBAIJAN COMPETITIVENESS AND TRADE (ACT) PROJECT

*ACT Progress Report for FY2012 Quarter 2
January 1 – March 31, 2012*



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Picture Caption: Anar Hamzayev, Director of AZERSTAR LLC - a local hazelnut manufacturing company in the Zagatala region, is watering newly planted saplings on a demo-hazelnut orchard. The saplings were imported from the AgriGeorgia nursery – the Georgian branch of Italian Ferrero Rocher (confectionery producer) with technical support and close collaboration of the ACT Project.

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Azerbaijan Competitiveness and Trade (ACT) Project

ACT FY2012 Q2 January 1 - March 31, 2012

DISCLAIMER

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ACRONYMS

ABM	Activity Based Management
ACT	Azerbaijan Competitiveness and Trade Project
AML	Anti-Money Laundering
BDS	Business Development Service Providers
CBA	Central Bank of Azerbaijan
COP	Chief of Party
CSO	Civil Society Organization
FMS	Financial Monitoring Service
GATT	General Agreement on Tariffs and Trade
GOST	Government Standards
IER	Institute of Economic Reforms
IFC	International Finance Corporation
INR	Initial Negotiations Rights
IPPC	International Plant Protection Convention
IPR	Intellectual Property Rights
ISPM	International Standards of Phytosanitary Measures (ISPM)
LOE	Level of Effort
MFA	Ministry of Foreign Affairs
MOA	Ministry of Agriculture
MOED	Ministry of Economic Development
MOF	Ministry of Finance
MOH	Ministry of Health
MOT	Ministry of Taxes
PMPI	PMP indicator
SME	Small and Medium Enterprises
SOW	Scope of Work
SPS	Sanitary and Phytosanitary Measures
STTA	Short-term Technical Assistance
TBT	Technical Barriers to Trade
TIRSP	Trade and Investment Reform Support Project
TRIPS	Trade related Intellectual Property Rights
TRQ	Tariff Rate Quotas
USAID	US Agency for International Development
WTO	World Trade Organization

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Project Overview

Sibley International is pleased to present the Azerbaijan Competitiveness and Trade Project Year 2 Quarter 2 Report in accordance with contract number AID-EEM-I-00-07-00003, task order number AID-112-TO-10-00002. This report covers quarterly reporting for year 2 and describes project activities completed during Q2 – January 1 – March 31, 2012.

The ACT Project began operations in October 2010 and builds on the work of various other USAID Projects previously completed to support similar objectives. The USAID ACT project aims to improve the domestic business enabling environment; develop a liberalized, more transparent trade environment; and improve targeted value chains in the agriculture sector of Azerbaijan. These overall objectives will be additionally supported through the elimination or mitigation of technical and administrative barriers that hinder progress in all three areas.

Formally, the project is divided into the three abovementioned interconnected and interdependent components. In addition, there are several cross-cutting technical areas that support all three components. These include the development of a public-private dialog to support discussions between the private and public sector to improve understanding of changes; the analysis of costs of various initiatives (legislation implementation, administrative barriers, trade facilitation, etc.) to facilitate the understanding and possible change of various legal and administrative measures through the use of objective cost information; overall monitoring and evaluation to ensure the project objectives are met; and development and implementation of a grants program to support the development of partner organizations in building local institutional capacity.

The project works towards achieving the following as defined in the SOW:

- Broad based understanding and acceptance of the need for an improved domestic business environment achieved, involving businesses, universities, associations, alliances, etc.
- Stakeholders active in pushing towards an business environment, sectors especially in agriculture/agribusiness sector
- Improved domestic business environment laws and the implementation of these laws, leading to an investor climate in the nonoil sectors
- Enhanced capacity within the Central Bank of Azerbaijan to maintain stability within the financial sector of Azerbaijan
- Broad based understanding and acceptance of the need for a liberalized, more transparent trade environment achieved.
- Stakeholders are active in pushing toward a more liberalized, transparent trade environment
- Laws drafted, amended, and/or adopted, i.e., World Trade Organization (WTO) related and targeted business environment laws

- Implementing rules and regulations transparently enforced, e.g., greater transparency with regard to trade, and other corruption fighting measures that will lead to increased exports
- Improved access to market information and agricultural best practices, through academic institutions, professional associations, alliances, etc.
- Adoption of best practices by farmers/businesses in targeted sectors
- Improved access to markets for targeted value chains
- Improved access to finance for firms and farms within the targeted value chains

Project Activities and Accomplishments in Year 2 Q2

Component 1: Domestic Business Environment Improved

Accomplishments Highlights in Year 2 Q2 in Component 1

Component 1 made progress in shaping policy affecting the domestic business environment, finalizing and submitting three different sets of recommendations for the Office of the President and helping to shape draft legislation on licenses and permits and the draft law on a unified real estate cadastre. It also made steady progress on food safety inspection checklists.

At the Central Bank of Azerbaijan (CBA), the project worked closely with bank officials to reconcile the proposed activity based management effort with the larger change management program developed by the Bank. Before phasing out the work on cash management, it assisted the bank on evaluating the submitted bids on the cash management system and developing the tender documents for the materials handling system at the CBA's new facility. Finally, the project learned that the CBA had adopted many of the recommendations of its risk based banking expert (who had been in Azerbaijan in December).

On anti-money laundering efforts, the project began developing the e-learning system at the Financial Monitoring Service (FMS) and offered training to CBA banking supervisors on anti-money laundering issues.

The project made modest, measurable progress against indicators for public advocacy, and in improving the legislative framework for businesses. Improvement in these numbers is expected, as the project attorneys, having completing their work on the property and e-commerce papers, can now devote more time to these activities.

Measureable progress was also seen with the indicators associated with efforts to combat money laundering. Efforts began in terms of meeting the targets related to establishing an e-learning system, in particular, installing the system and creating content for it.

Activity 1.A: Build and Sustain the Case for Economic Reform in Azerbaijan

As agreed with USAID, Activity 1.A was phased out as a stand-alone activity. The business start-up mapping effort (reported under this section for Q1) will be described in this report under Sub-Activity 1.B.4 (Administrative Barriers Reduction).

Activity 1.B: Facilitate Changes to Business-Related Laws, Regulations, and Administrative Procedures so as to Improve the Business Climate, Particularly in the Non-Oil Sectors

This portion of the report describes sub-activities of the project as delineated by the work plan.

Sub-Activity 1.B.1: Tax Reform

Pursuant to the relationship with the Ministry of Taxes (MOT) established in Q1, the project brought back its tax policy expert to work on (1) tax payer services, (2) the curriculum of the MOT's Tax Training Center, and (3) knowledge sharing by project experts. These were activities agreed with the Deputy Minister the previous quarter working with the MOT's liaison to the project, Alakhbar Mammadov. The project's strategy is to use this work as a gateway to engagement on policy and modeling issues with the Ministry. The project also provided additional time for the tax expert to work with the Ministry of Finance and the Milli Majlis on tax policy issues.

For the Ministry of Finance, the expert developed a recommendation paper on presumptive taxation and, for the Milli Majlis, a paper offering distinctions between employment and self-employment. Both of these papers address policies that, unfortunately, encourage smaller tax payers to remain outside the formal system. These documents were being translated and finalized as the quarter ended but will be distributed to other stakeholders as well.

The tax policy expert also closely reviewed the tax modeling papers developed by the tax modeling expert in the previous quarter. He provided comments regarding the approach and conclusions of the study, to which the tax modeling expert responded. These opinions were being weighed and reconciled as the quarter ended.

Sub-Activity 1.B.2: Property Law Reform

Early in Q1, the project received a request from Adil Aliyev, the acting Head of the Legislation Department at the Ministry of Justice (MOJ) for assistance on commenting on the draft Law on a Unified Real Estate Cadaster. The project used this opportunity to raise several issues that it was developing in the property briefing paper.

The project's briefing paper that was circulated among USAID, the US Embassy and various property consultants in Q1 and was translated and submitted to the Office of the President. Finalizing the translation took longer than expected due to differing styles of expression used in Azerbaijani and the need to adjust the tone of the original English version of the document to account for the particular audience at the Office of the President.

Sub-Activity 1.B.3: Commercial Law Reform

This sub-activity breaks down into several distinct areas.

Legislative Agenda for Office of the President

The translated version of the legislative agenda (discussed at length in the Q1 report) was submitted early in the quarter. As yet, the Legal Department from the Office of the President has not responded to this document. Accordingly, the project has been attempting to develop other champions for reform in the Office of the President, Milli Majlis and various ministries distributing the document to other potential stakeholders.

Competition Code Dialogue

The project continued to implement the plan for engaging with the Milli Majlis that it had developed in Q1. Namely it (1) competitively selected the Azerbaijani Lawyers Confederation as a partner to support dialogue with the Milli Majlis, (2) sponsored and participated in a TV show in Sheki on Competition Law, (3) offered a seminar to attorneys on Competition Law in conjunction with attorneys at an American Bar Association sponsored event, (4) coordinated with the president of Coca-Cola Bottlers on competition law issues, and (5) published an article in *Gundelik Telegraf*.

E-Commerce Legislative Package

The legislative package on e-commerce was completed and submitted to the Office of the President. It was also submitted to members of the Milli Majlis who expressed interest in this initiative.

Secured Transactions Law Promotion

In late February, the project sponsored an episode of the TV program Economic Forum on the secured transactions law, featuring a local attorney (who had headed up the group that drafted the law), an expert from the International Finance Corporation (IFC) (who developed the draft law several years before as a USAID consultant), and the head of Component 1. This TV episode was then posted on You Tube.

Subsequently, the Central Bank agreed to champion the draft in a formal letter to the IFC. This was one of the intermediate goals of this effort.

Draft Law on Licenses and Permits

Pursuant to an arrangement with the Ministry of Economic Development (MOED) and the IFC, the project closely reviewed and suggested substantial changes to the draft Law on Licenses and

Permits. The working group at the MOED adopted most of these suggested changes and sent it to the Cabinet of Ministers for circulation.

Sub-Activity 1.B.4: Administrative Barriers Reduction

This sub-activity comprises work on business start-up, leasing of land, food safety inspections, and the adoption of regulatory impact analysis methodologies.

The consortium contracted to map out the procedures for starting a fish processing plant and an olive growing/processing business submitted its first deliverable in early January (essentially a work plan and a methodology). After receiving substantial feedback from the project, it reoriented its priorities slightly, submitting its second deliverable (an analysis and roadmap for starting an olive growing business) at the end of Q2.

Work on leasing of land and on regulatory impact analysis methodologies continued to be postponed pending a reorganization of the project that had the public sector investment specialist being reassigned to these issues. Unfortunately, the specialist became ill upon taking this new assignment and was out for the remainder of the quarter.

On food safety inspections, the project was able to agree with Jamal Guliyev, head of the Republican Quarantine Laboratory of the State Phytosanitary Service on the five stages on which various checklists would be developed. Working drafts have been developed on two of the five stages using materials developed and provided by the project.

The project began planning for the agreed upon five roundtables to support greater understanding of the government agencies responsible for food safety. In particular, the project explored how it could coordinate with the IFC to address issues regarding the Ministry of Justice's inspection registry as it related to food safety issues (one of the agreed-upon topics from last quarter). The IFC (which has worked closely with the MOJ on these issues) preferred to address inspections in a larger context. The project will however work directly with the food safety agencies only while the IFC will work with others responsible for inspections. There will be various smaller roundtable discussions with the MOJ and each of the agencies responsible for inspections. If agreement is reached, as a result of these smaller meetings the efforts will most likely culminate in a larger event organized in cooperation with MOJ.

Sub-Activity 1.B.5: Public Investment Rationalization

Taking direction from USAID, the project phased out this activity. The final effort entailed a recommendation paper on how to more effectively rationalize public investment. The project was reviewing a draft of this paper as the quarter ended.

Activity 1.C: Enhance the Capacity within the Central Bank to Maintain Stability within the Financial Sector

This activity breaks down into work with the CBA proper and with the Financial Monitoring Service, which is under the CBA but has separate offices and a more specialized mission. Note that even though the work here represents substantial effort with these institutions, activities here will not be measured by incremental change in related indicators as these two institutions have already been counted as “strengthened” in Y1.

Sub-Activity 1.C.1: Central Bank Assistance

Assistance to the CBA has been focusing on (1) supporting the development of the CBA’s cash management system and materials handling system, (2) introducing risk-based methodologies into its bank supervisory activities, and (3) introducing activity based management (ABM) across the bank. The first activity went into phase-out mode during the quarter. The second was put on hold. The third activity moved forward, albeit more slowly than anticipated, due to new requirements that the activity based management be incorporated into the CBA’s change management strategy.

Late in Q1, USAID informed the CBA that it would be phasing out its support for the Bank’s cash management and materials handling activities during Q2. As part of the phase out, the consultants worked both offsite and onsite in January, helping the bank evaluate bids received from vendors vying to provide the Bank with a cash management system. In March, one of the experts traveled to Baku to assist on preparations for the tender for a company to develop the materials handling system at the Bank’s new facility. No further efforts under this activity are expected.

With respect to risk based bank supervision, work with the project’s expert (who was in Azerbaijan in December) was put on hold during most of the quarter. Nevertheless, the Prudential Supervision Methodology Division further revised its methodology for risk based bank supervision in line with the expert’s recommendations. Further, the units of the CBA have been reviewing its entire approach to bank supervision in line with the change management efforts seen with activity based management. The recommendations of the project’s expert have contributed to this effort as well.

As noted in the previous quarterly report, neither the CBA nor the project were satisfied with the level of progress the consultant made with respect to starting the effort to implement ABM at the Bank. Joint discussions among representatives of the Bank, the project, and USAID led to conclusion that the ABM implementation effort had to be formally brought into the change management program the CBA was initiating across a wide variety of activities. This led to in-depth reviews of Bank-provided project planning templates and lengthy discussions between the

project and CBA personnel (notably Araz Nasirov of the Financial Management Department and Rashid Mammadov of the Strategic Management Department) on how to reconcile the terminology and requirements of the change management system with the ABM system contemplated by the project's expert.

By the end of Q1, however, the project had jointly developed with the Bank a reasonably well advanced "project implementation document" for the contemplated ABM activity and terms of reference with mobilization of the ABM expert planned for early in Q3.

Sub-Activity 1.C.2: Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT)

The project provided training on AML/CFT issues to CBA bank supervisors and training on use of MS Excel and SQL¹ as database management systems for various staffers at the Financial Management Service. It also made progress on the installation and preparation of an e-learning system on AML/CFT issues.

Training

The project determined in previous quarters that the FMS staff, in order to run queries and otherwise mine the database of information it is collecting on a regular basis, needed to have a better understanding of how to use MS Excel as a database management tool. This training was provided to approximately ten FMS personnel in January. This was followed up by training on SQL for members of the IT department of the FMS.

The project also provided training to bank supervisors in the CBA's Credit Institutions Supervision Department. The course lasted approximately three weeks (offered in the morning of most work days) and featured an exam at its completion. Of the 29 bank supervisors who took the course, 26 passed.

Development of an E-Learning System on AML and CFT Issues

Progress on this effort can be tracked with respect to its information technology (IT) aspects and its substantive content (SC) aspects.

With respect to IT aspects, the project supported the installation of the necessary SQL software (the middleware foundation for the e-learning system) on the server at the FMS. Several weeks later the e-learning system itself was installed, also with project support.

In terms of substantive content, the AML expert on the project developed 40 modules in English. After reviewing the modules the FMS decided to combine a good portion of them, bringing the eventual number down to approximately 20. The AML expert and another project staffer worked

¹ SQL is structured query language – a programming language for database management. SQL Server is an enhanced database management system sold by Microsoft.

closely with the FMS during this process to tailor the modules to local circumstances and to have them better reflect appropriate international best practices.

For various reasons the project began searching for alternative AML experts to provide a final review of the content.

As this activity is still in its incipient stage, no individuals have taken the e-learning course yet.

Issues/Constraints

For reasons apparently connected to idiosyncrasies of the Azerbaijani language, the completion of Azerbaijani versions of documents created by the project continues to take extraordinary amounts of time in relation to such efforts in other countries.

The Legal Department in the Office of the President, which was looked upon as a key champion for reform, has recently appeared less willing to actively cooperate with the project. The project, as a result, has had to build other relationships in the Office of the President, Milli Majlis and line ministries.

Substantial personnel issues have hampered productivity and progress in particular related to activities defined under administrative barriers in the work plan. The Business Environment Specialist's position has been uncertain since late October. Various discussions and decisions led to a final result of having the CSO coordinator take on responsibilities for food safety regulation issues and for the public sector investment specialist to take over issues regarding leasing of land, business start-up, and regulatory impact analysis. The former CSO coordinator started work on food safety issues only at the end of this quarter. As for the former public sector investment specialist, just as she started her new assignment she fell gravely ill and was unable to take on these duties for the remainder of the quarter.

While the Central Bank expressed clear interest in undertaking the difficult decisions necessary to fully implement the ABM system, it required that the ABM system be fully integrated within its change management program as a condition of starting this work. As both the ABM system and the change management program were new to ABM personnel, it took substantial work and revision to reconcile the two approaches.

High rates of employee absenteeism and extensive vacations, sanctioned under the Labor Code, continue to work against optimal efficiency and day-to-day continuity in Component 1 as well as in other Components.

Project Activities Planned for Q3 FY2012

The project will continue its efforts on advocating for the passage of a progressive competition law, both directly through articles, events and indirectly, through activities organized by the Azerbaijan Lawyers' Committee.

The project will circulate its property briefing paper to various government agencies and donors. It will also actively seek out an opportunity to engage further on the draft Law on Unified Cadaster, two drafts of which (by two different agencies) are now circulating in the Cabinet of Ministers.

The project will participate in an AmCham-organized conference on taxes and pursue all opportunities to engage in dialogue with government agencies on proposed changes to the Tax Code.

The project will work with the State Phytosanitary Control Service and State Veterinary Service to prepare and circulate the first draft inspection checklist.

The project will mobilize the ABM expert to conduct the first of eight trips to Azerbaijan to implement this system at the CBA.

The project will work with the Legal Department of the Central Bank in order to restructure the draft law on secured transactions, which it requires in order to move forward in championing this draft law.

The project will mobilize an expert to review the e-learning modules in terms of international best practices.

Component 2: Liberalized, More Transparent Trade Environment Developed

Accomplishments Highlights in Year 2 Quarter 2 in Component 2

Azerbaijan's Ninth WTO Working Party meeting was held on February 24, 2011. This productive meeting represented a step forward in laying out remaining reforms for WTO conformity. Bilateral market accession negotiations on goods and services were also held during the week of February 20, 2012 with Canada, Ecuador, EU, Japan, Norway, and US. Members demonstrated genuine desire to help Azerbaijan in closing its accession process. Azerbaijan has also come to realize that further delays in its WTO accession do not serve its interests and that there is a need to advance reforms and take further actions to satisfy Members' requests connected with market access. The Deputy Minister of Foreign Affairs, Mahmud Mammadgulyev requested that USAID ACT assist in developing a roadmap to move the process forward in an organized, timely, orderly, and coordinated manner. A draft roadmap for consideration by the GOAJ was prepared. Preparation was launched for next rounds of negotiations including possible bilateral meetings with the US at the fringe of the US-Azerbaijan Joint Economic Commission meeting (April 17-18, 2012).

During this quarter, legislative progress was made in a few areas for improving the trade environment and improving compliance with the WTO agreements. The Office of the Office of the President completed its review of the draft law on Protecting Intellectual Property Rights and Combatting Piracy and the draft law on Technical Regulations. The draft law on Accreditation of Conformity Assessment Bodies and the draft law on Plant Variety Protection were completed at the Ministerial levels. Improvements were introduced to the draft law on Foreign Trade Activities at the Ministry of Justice. Draft amendments to the law on Veterinary and the draft amendments to the draft law on Phytosanitary have been submitted to the Cabinet of Ministers. Drafts for half a dozen regulations to implement the new Customs Code were completed. A new Customs Tariff law was also prepared by Customs and submitted to the Ministry of Justice.

In addition, ACT assisted in launching the process of harmonization with Codex Alimentarius and in developing a plan for transitioning from mandatory standards to voluntary standards and technical regulations in line with the TBT (Technical Barriers to Trade) Agreement.

Activity 2.A: Support to GOAJ in Improving the Trade Environment

Sub-activity 2.A.1 Trade Environment Legal Reform

The local team of lawyers continued monitoring the legislative process (22 drafts) for bringing the legal framework in line with best practices and the WTO agreements covering a wide array of areas including intellectual property, food safety, animal and plant life health, customs, trade remedies, licensing, foreign trade policy, standardization and accreditation, and technical regulations. The updated chart of legislative progress is provided in Annex 1B.

Where required, the Team provided technical reviews, support, and advice to advance the process. In some instances, support was sought from international experts. The following were the most significant activities performed by the Team to advance legal reform for improving the trade environment:

1. The State Customs Committee prepared the draft law on customs tariff to replace Law No. 1064 on Customs Tariff” of 20 June 1995. The draft covers customs valuation and the rules of origin. The State Customs Committee provided the ACT project a copy of the customs valuation chapter which appears, through a quick preliminary review, to include the previous text of the customs tariff law and some of the suggested ACT/TIRSP amendments to improve the 1995 Law. In addition, the Draft contains interpretative notes on valuation and provisions related to interest charges valuation. ACT will conduct a detailed review of the valuation chapter and, once it becomes available, the entire draft.
2. The State Customs Committee prepared at least 10 draft implementing regulations for the new Customs Code. The Ministry of Justice requested that ACT review and comment on eleven draft regulations. ACT completed review of the following five drafts as of the end of March 2012:
 - Storage Procedures
 - Customs Control
 - Concession and Simplified Guidelines
 - Terms of Suspension Procedure
 - Simplified Clearance Procedure

Reports regarding the first five regulations have been translated to Azeri and shared with the Ministry of Justice.

3. The draft law on plant variety was finalized at the Ministry of Agriculture taking into account additional suggestions by ACT for improving the draft.

4. The project continued providing support to the Office of the President in introducing further amendments to the draft law on Technical Regulations. The draft was finalized by the Office of the President's Legal Department and sent to the Cabinet of Ministers for visas from relevant ministries. ACT will conduct a final review of the draft after final comments are received.
5. The draft Law on Accreditation was finalized at the State Committee on Standards, Patents, and Metrology. ACT provided support throughout this quarter in introducing suggestions to improve the draft.
6. The ACT project held many rounds of discussions with the Ministry of Health and the State Committee on Standards, Patents, and Metrology to resolve the remaining issues hindering the finalization of the draft amendments of the Law on Food Products.
7. Per request of the Ministry of Justice the project conducted a legal review of the most recent version of draft law on Foreign Trade Activities. The project also provided and discussed suggested changes with the Ministry of Justice.
8. The Ministry of Justice completed its review of draft amendments to the law on Phytosanitary and provided to MOED for further submission to the Cabinet of Ministers.
9. The Ministry of Justice completed review of draft amendments to the law on Veterinary and provided to MOED for further submission to the Cabinet of Ministers.
10. The project discussed with the Office of the President and the Copyright Agency additional amendments to improve the draft law on Protecting Intellectual Property Rights and Combatting Piracy. The Office of the President indicated that it will suggest these changes before the second reading at the Parliament.

The project organized a roundtable with representatives from Parliament, the Customs Committee, the Ministry of Economic Development, the Copyright Agency, and the Standardization Committee regarding WTO TRIPS requirements as they relate to the draft law on Securing Intellectual Property Rights and Combating Piracy. Speakers outlined the importance of strict TRIPS compliance for WTO accession, as well as for the protection of IPRs in Azerbaijan, and enumerated particular points of non-compliance in the most recent version of the draft law on Anti-Piracy available to the ACT project. The participants discussed detailed aspects of the draft's TRIPS Agreement compliance.

The project worked with the State Committee on Standardization, Metrology & Patents (Deputy Head of Patent Department), and maintained ongoing dialogue on the needs of Patent Authorities in finalizing each of the following:

- draft procedural regulations on Conducting Market Surveys to determine whether a trademark is well known;
- draft procedural regulations on how to determine the relationship of product to geographic indication; and
- draft regulations on compulsory licensing procedures.

The team drafted analytical notes related to finalizing each of the aforementioned draft regulations. The team provided closely related information in response to specific questions raised by the Standardization Committee regarding international legislation and practice related to well-known marks and geographical indications. The three drafts will be further revised in light of the above.

At the request of the Ministry of Justice, the project launched a review of draft regulations on IP (intellectual property) customs border enforcement measures (Draft on the approval of “The rules of suspension of the release of goods containing objects of intellectual property right, extension of the term of suspension of the release, notification of the applicant and declarant about the made decisions”).

The team also met with AmCham to discuss and coordinate on issues related to intellectual property and implementation needs.

Finally, ACT conducted a quick evaluation of US and EU Tariff Rate Quotas (TRQ) regulations and assisted in understanding these two models and developing ideal regulations for administering tariff rate quotas taking into account applicable aspects of US and EU TRQ regulations. The project discussed US and EU models and ideal regulations in a roundtable with representatives from MOED and the Ministry of Agriculture. ACT worked closely with MOED on developing draft WTO-consistent TRQ regulations.

In connection with legal reforms, ACT:

- Conducted a seminar on TBT issues for government officials at the State Committee on Standards, Metrology, and Patents to deepen their understanding regarding TBT related reforms.
- Familiarized economic officers of embassies of EU member countries in Azerbaijan with the new customs code.

Sub-activity 2.A.2: Trade Environment Institutional Reform

To initiate cooperation between multiple food control agencies and to increase food safety in Azerbaijan, the project assisted in developing a National Residue Monitoring Plan focusing on priority contaminants (pesticide residues, heavy metals, aflatoxins, patulin, food additives) in selected food of plant origin (apples, tomatoes, cucumbers, pomegranate, hazelnuts,

pomegranate juice and apple juice). Through one-on-one meetings with food control agencies and several roundtables, a final draft of the Plan was developed during this quarter for submission to the National Codex Commission for approval.

Sub-activity 2.A.3: Sanitary and Phytosanitary Standards Harmonization

The current standards governing food safety in Azerbaijan are largely based on standards of the former Soviet Union. Harmonizing with Codex Alimentarius and IPPC (International Plant Protection Convention) standards is critical to enable WTO accession and improve compliance with international safety requirements and quality standards. This will improve compliance with import requirements in the Eastern European and EU markets and increase export potential.

Codex Alimentarius:

The team provided proposals for developing drafts for adopting key elements of the following two Codex Standards, and discussed them with relevant government and the private sector to assist in understanding the two aforementioned Codex standards:

- Maximum Residue Limits (MRLs) for Pesticides - CAC/MRL 1;
- International Code of Practice General Principles of Food Hygiene (CAC/RQ1-1969, Amd. 1999, Rev. 1997 and 2003)

The project organized and conducted roundtable meetings (31/01/2012; 07/02/2012; 09/02/2012; 10/02/2012) of the Technical Working Group on food safety (including all relevant stakeholders representing State Sanitary Epidemiological Service of the Ministry of Health, State Veterinary Service, State Phytosanitary Control Service of the Ministry of Agriculture, State Committee on Standardization, Metrology and Patents, Azerbaijan Institute for Standards, private sector and consumers union) to (i) build capacity in understanding the two international Codex Alimentarius standards (the Recommended International Code of Practice - General Principles of Food Hygiene and the database of Maximum Limits for Pesticide Residues) and the importance of adopting them; and (ii) facilitate adoption of key aspects of these two standards.

Conversion of Mandatory Standards:

The project assisted the State Committee on Standards, Metrology, and Patents in developing a plan to convert mandatory GOST product standards to technical regulations and voluntary standards with a view of:

- Identifying priority areas of focus;
- Eliminating and/or replacing outdated standards with international ones;
- Aligning with best international practices, including EU New Approach principles; and

- Excluding low-risk goods.

The Project assisted in developing a list of actions necessary for transition from mandatory standards to voluntary. Proposed actions include legislative process, conducting inventories of existing measures, and other organizational issues. ACT suggested a list of technical regulations to be developed based on the European Directives. In cooperation with the State Committee on Standards, Metrology, and Patents, a roundtable was held to discuss the draft plan. Representatives from the following ministries participated: Ministry of Industry and Energy, Ministry of Emergency Situations, and Ministry of Economic Development.

IPPC:

Further, a TOR was prepared and approved to build the capacity of the State Phytosanitary Service and assist through pilots to harmonize with the following International Standards of Phytosanitary Measures (ISPM):

- ISPM 2 (2007) Guidelines for pest risk analysis;
- ISPM 11 (2004) Pest risk analysis for quarantine pests, including analysis of environmental risks and living modified organisms; and
- ISPM 21 (2004) Pest risk analysis for regulated non-quarantine pests.

Activity 2.B: Support to GOAJ on Procedures and Mechanics of WTO Accession

Sub activity 2.B.1: WTO Accession

Azerbaijan's Ninth Working Party meeting was held on February 24, 2012. Azerbaijan's Delegation was headed by Deputy Minister of Foreign Affairs, Mahmud Mammadgulyev. Over a dozen officials from key ministries and state bodies attended. The Meeting was chaired by HE Mr. W. Lewalter, Germany. The following WTO Members participated in this meeting: Armenia, Australia, Canada, China, Chinese Taipei, European Union, Indonesia, Japan, Korea, Nepal, Norway, Oman, Paraguay, Saudi Arabia, Switzerland, Thailand, the United States of America, and Ukraine. Over sixteen EU Member countries attended this meeting including representatives from Czech Republic, Estonia, Finland, France, Germany, Latvia, Romania, Slovakia, Spain, and United Kingdom. In addition, the following observers attended: Afghanistan, Belarus, Ethiopia, Kazakhstan, the Russian Federation, Uzbekistan, and Yemen. The project provided input for the development of opening remarks by the Deputy Minister of the MFA.

The meeting agenda addressed the following items:

- i. Review the state of play in market access negotiations;

- ii. Continue the examination of the Azerbaijan foreign trade regime on the basis of replies to additional questions raised by members and draft factual summary;
- iii. Review of legislative developments; and
- iv. Consider the next steps in the work of the WP.

Members expressed a genuine effort to help Azerbaijan in closing its accession process. Azerbaijan has also come to realize that further delays in its WTO accession do not serve its interests. Azerbaijani officials at the meeting also voiced a need to advance reforms and take further actions to satisfy Members' requests connected with market access. The Deputy Minister of Foreign Affairs, Mahmud Mammadgulyev requested that USAID ACT assist in developing a roadmap to move the process forward in an organized, timely, orderly, and coordinated manner.

The Project prepared a Note summarizing the proceedings of the WP meeting, focusing on points raised and analysis of next steps. The team also developed an ambitious draft roadmap (around 30 pages), as requested by the Deputy Minister of MFA, with target date for completion of accession negotiations by the end of March 2013. Discussions with officials of MFA and MOED are ongoing to finalize the roadmap and agree on final and intermediate target dates for completing remaining WTO-conformity legal reforms as well as negotiations steps, especially regarding market access negotiations on goods and services.

To maintain the momentum, the team launched assistance toward preparation for the next (10th) Working Party meeting. The Project assisted in organizing, assigning, and translating EU questions for advance circulation to relevant ministries and state bodies. The Project also initiated its own internal research and analysis to support preparation of replies to these questions.

ACT also launched assistance to support revisions of offers on goods and services for submission to WTO members, particularly the US, during the first week of April with the aim of facilitating a bilateral round of market access negotiations with the US at the fringe of the US-Azerbaijan Joint Economic Commission planned for April 17-18, 2012 in Washington DC. In this regard, ACT has provided clarifications to MOED on a wide number of issues related to goods and services and is assisting in the integration of line items related to sectoral initiatives including information technology agreement, chemical harmonization, scientific and medical equipment, pharmaceuticals, civil aircrafts, and agricultural equipment.

In support of furthering bilateral negotiations, the project assisted in preparing a comparative table for US INR (initial negotiations requests) for the following countries: Armenia, China, Georgia, Russia, Ukraine, and Vietnam.

In support of facilitating agricultural multilateral negotiations on domestic support, the project assisted in the development of an action plan for moving gradually away from the current system of distortive agricultural subsidies under Amber box toward a decoupled system as a transition to

green box subsidies. ACT presented the action plan through a workshop which involved representatives from the MOED and MFA and distributed the document to other stakeholders at the Office of the President.

To build WTO awareness and greater political support for WTO accession, ACT:

- Held a WTO roundtable discussion with 10 members of the economic committee of the Parliament;
- Met with the Head of Economic Policy Department, Mail Rahimov, of the Office of the Office of the President to discuss WTO and business related issues; and
- Met with the Head of Agro-policy department of President Office to discuss WTO accession, food safety, inspections and institutional changes in agriculture management system.

As a follow up to these meetings various documents produced by the project were sent to each of these representatives including the legislative agenda, impact assessments, and action plan for converting distortive subsidies, among others.

Project Activities Planned for Q3 FY2012

Legal reforms:

- Continue support to all draft legislation with focus on the following main priorities: draft law on technical regulations, draft law on foreign trade activities, draft law on trade remedies, draft amending law on food products, draft law on combatting piracy, draft amendments to Decree 782;
- Conduct detailed review of the draft law on Customs Tariffs;
- Continue support in reviewing draft implementing regulations for recently adopted customs code as requested by the Ministry of Justice and/or the Office of the President;
- Assist in further development for regulations related to intellectual property, and trade remedies law;
- Prepare model regulations for implementing the law on Technical Regulations.

Institutional development:

- Expand SPS Enquiry and Notification Point;
- Develop procedures for implementing the code of good practice; and
- Qualify one laboratory in line with ISO 17025. and
- Continue promoting adoption of residue monitoring plan.

International standards:

- Continue support for Codex Harmonization; and
- Launch process of adoption of three IPPC standards: ISPMS 2, 11, and 21.

WTO Accession process:

- Assist in preparation of next working party meeting including replies to questions;
- Assist in updating legislative action plan;
- Conduct an analysis and develop plan for eliminating the telecommunications monopoly;
- Promote further liberalization toward improving revised offers on goods and services;
- Complete update of WTO awareness materials;
- Conduct WTO awareness seminars; and
- Update any needed conformity charts.

Component 3: Targeted Agricultural Value Chains Improved

Accomplishments Highlights in Year 2 Quarter 2 in Component 3

The second quarter of Year 2 in Component 3 saw an expansion of staff and activity in the areas of farmer training and the creation of demonstration plots. The ACT project hired six local experts to expand farmer training, and an international consultant to advise and manage the effort. Early results have been impressive with 1,300 farmers trained in improved farming techniques in all five value chains. More importantly, the system of local experts will form a nucleus for a farmer extension system, which should demonstrate the benefits of farmer training, and open the discussion for continuing farmer training efforts.

In terms of demonstration plots, the ACT project created one for hazelnuts in conjunction with partners from Ferrero, GIZ, and a local company, Azerstar. In addition, six demonstration plots are planned for the apple value chain in the Guba area, and one carp hatchery demonstration site is planned for Neftchala. These demonstration sites will add greatly to the capacity of our local experts to conduct farmer training and show a physical presence of the ACT project. Farmer training efforts are expected to expand in Q3 when the project adds support from four implementing partners for dairy, hazelnuts, and pomegranates.

Value chain development above the farm gate continued in Q2 with the assistance of international technical consultants and efforts of project value chain development specialists. In particular, the aquaculture value chain saw a lot of activity in design of large trout production facilities, design of hatcheries, and domestic trade assistance between growers and processors. Efforts continued in the horticulture crops with advanced training for hazelnut agronomists taking place in Georgia, trade show facilitation for pomegranate processors, and continuing assistance to cold chain operators. In addition, contacts with input suppliers and associations were expanded, with additional cooperation sought in the future.

Food safety activities continued in Q2 with significant progress being made in the HACCP implementation program. To date, the five participating companies have completed 20% of the HACCP implementation process, and two additional companies have agreed to join the program. Training on food safety and HACCP was also provided to the Azerbaijan State Agrarian University in Ganja, with HACCP manuals in dairy, meat and fruits and vegetables completed. In addition the Azerbaijan Consumer Safety Seal program began, and will continue to be in the formulation phase during Q3.

The bank training program saw significant progress in Q2 with training provided to a total of 102 staff from all four partner banks by our team of international banking consultants and local finance specialists. In addition a bank training organization was identified as a new partner to

support the development of a sustainable training program after the project is finished. Efforts will be made to design a training program to strengthen their ability to train bank staff.

Activity 3.A: Identify Subsector that Exhibit Potential for Competitive Growth

Sub-Activity 3.A.1: Market and Other Analysis

The DRC Analysis for Aquaculture was completed and accepted by the ACT project in Year 2 Q1, and a dissemination program was carried out in January and February of 2012. Dissemination activities included holding a workshop on the “Analysis of domestic resource costs of fish farms” that was attended by 30 people, including key officials from government ministries, embassies, and civil service organizations. The workshop was widely covered by the media, and generated 13 articles in the media. In addition, a television show was filmed and broadcast that focused on the main trends and constraints in the aquaculture sector in Azerbaijan, and featured John O’Connell, Team Leader, Component 3, and representatives from the Economic Research Center, and the Ministry of Ecology and Natural Resources. Finally, two articles on challenges and potential in the aquaculture sector were written and published.

Given that the program is now entering its second half, the ACT project will no longer be actively looking for additional value chains to assist. However, work will continue to expand in the input sector for all of the existing value chains. Assistance in the cold chain sector will be expanded to the southern area of the country.

Activity 3.B: Improved Competitiveness of Targeted Sub-Sectors

Sub-Activity 3.B.1: Direct Value Chain Assistance

This activity focuses on developing the value chains above the farm gate level, and is targeted at processors, service providers, storage, transportation, and any other element in the value chain except the farmer. The specific activities include providing direct technical assistance to SMEs in processing and cold storage, capacity building of project BDS partners, cold chain services development, food safety and certification activities, and association development. These activities support indicator 3.2 from the ACT Project PMP, which is the number of firms receiving USG supported assistance.

Key accomplishments and highlights by value chain and/or sub- activity are as follows:

Horticulture (Pomegranates, Apples, Hazelnuts)

Hazelnuts – ACT Staff met with Azerstar LLC leadership, including Director, Anar Hamzayev, and General Director, Ilham Isayev. Azerstar is a hazelnut processor processing 5,000 MT of hazelnuts

from farmers each year. The main countries that Azerstar exports to are Russia, Italy and Germany. ACT staff toured the processing facility and became familiar with the company. ACT staff also discussed the search for an appropriate site for a demonstration orchard that would receive 1,000 saplings of an improved variety. As a result of the discussions the Azerstar Director offered to provide one hectare of land for the site along with some of the daily expenses to maintain the demonstration site. ACT staff visited the site, located in the Mukhak village of Zagatala, appropriately situated on a main road, and has a two-room seasonal structure that can be used for farmer training.

ACT staff met with Parviz LLC BDS which will be the ACT local partner implementing support to the hazelnut value chain in the Northwest part of country. Vugar Mohumayev, project coordinator, and other company experts participated from Parviz LLC. Discussions focused on the history and structure of the company. In addition they discussed previous development programs in which they participated. The project also discussed current conditions of hazelnut growers and producers and the newly established hazelnut demo pilot.

ACT staff met with Dr. Sean Watson who is a hazelnut expert and business development specialist for Mountain Hazelnuts, which is a US company that is registered in China. The company is training farmers in isolated villages in eastern Bhutan to cultivate farmland that was sitting idle and unfit for other crops. The purpose of Dr. Watson's visit to Azerbaijan, given its similar climate conditions, is to meet hazelnut growers to get acquainted with cultivation practices, hazelnut varieties, and to analyze the processing sector. Dr. Watson and ACT staff visited three farmers in the Zagatala and Balakan regions, and the newly established hazelnut demo plot in Zagatala. In addition, the group visited Azerstar LLC to see their facilities. During the meeting with Azerstar, Dr. Watson discussed the huge demand for hazelnuts in China. To satisfy this demand Mountain Hazelnuts is planning to build a hazelnut processing plant in Bhutan with an annual capacity to process 40,000 MT of hazelnuts. Azerstar Director, Anar Hamzayev, indicated they would be interested in exploring export opportunities in China. Dr. Watson generously offered to share contacts of Chinese buyers with Azerstar and provided his email and phone contacts.

Pomegranates – ACT staff visited the Aznar OJSC pomegranate processing facility in Goychay to tour the facility and meet with the deputy director. Asif Ismayilov (the Director's assistant and technologist) provided a tour of the plant. The ACT Team viewed the intake facility, storage facility, laboratory, and the new building with new equipment being installed that will process the pomegranate seeds to extract pomegranate oil, and another line that will produce tannins from the pomegranate skin. The company is expanding to take advantage of all the economic benefits possible from the pomegranate. Finally, the team viewed the bottling line, which had products destined for many markets in the world, including the United States. ACT staff also provided a brochure about a trade fair in Seoul, Korea that will be held May 08-11, 2012. The Korean government is willing to partially subsidize the attendance of a limited number of Azeri

businesses. The Aznar staff said they were interested in attending the trade show, and requested additional information.

In addition, ACT staff visited the Sabirabad Conserve Company, and toured their facility in Sabirabad. The factory has been in existence since Soviet times, and was sold to its general director about 20 years ago. Some new storage tanks have been added, but for the most part the facility was extremely run down and filthy. The general manager was the brother-in-law of the owner, and did not seem to have much business or technical knowledge. Nevertheless, they produced private label pomegranate juice with ready markets in Russia and other destinations. The Araz BDS in Imishli had provided support, assisting in sourcing packing and storage materials. Together with the visit to the Aznar plant in Goychay, ACT staff were able to see the best and worst of the juice producers and the power of global demand for pomegranate products where even a factory that would not meet any standard anywhere for food safety was successfully exporting anyway.

Apples – ACT staff visited the Ema Company, which is one the largest pesticide distributors in Azerbaijan, to learn more about the input market for apples. First, the staff met the company agronomist, Mr. Faiq Quliyev, who shared detailed information with us about the company, its products, and activities, and discussed current conditions in the apple sector in the Guba-Khachmaz region. ACT staff discussed possible collaboration with the Ema Company to train apple farmers on proper chemical application use and to provide trainings for chemical dealers. Mr. Quliyev said that he would welcome the idea of building a relationship with our project, and would be pleased to provide any information that the ACT project needed about their activities. Mr. Quliyev told the ACT team about the Ema Farmer House in the Guba-Khachmaz region and how their specialist provides free advisory services to farmers, and offered the use of Ema Farmer House to hold workshops and trainings for apple farmers. Finally, the project met with Mr. Abdulhuseyn Abdullayev, who is the director of the Ema Company, who also offered to collaborate with the ACT project.

Dairy

Consultant John Bonnier made his fourth advisory trip to the ACT project, and carried out a new mission of training new project local experts and finalizing training materials for the dairy farmer training program. New plain language guides were developed, trainer manuals were prepared, and workshops were conducted to test the materials and train the trainers. In addition, visits were paid to key government officials and service providers to monitor developments in the dairy sector. Demonstration sites were evaluated, but given limited budgets, it was decided to focus on feed demonstration sites and provision of dairy equipment. Also, an evaluation of the current state of the artificial insemination (IA) industry was provided, with recommendations for future activities.

The ACT project focused on farmer level training this quarter. The project also hired Elvin Aghayev, who has 9 years of experience working in developing the dairy sector, and will be an excellent addition to the staff. It is expected that two implementing partners will be under contract early in the next quarter to further support activities throughout the value chain.

Aquaculture

MS Fish to produce cold and hot smoked trout for the first time

Early in the program the project identified MS Fish as the only medium sized and independent fish processing operation in Azerbaijan. With monthly processing volume of 70 MT, MS Fish is supplying some 1,200 supermarkets and grocery stores in Baku and Absheron with processed fish. Before partnering with the ACT project MS Fish sourced its raw material exclusively from imported product from Russia, Europe, Scandinavian countries and China. ACT staff met with Shamkhal Mammadov, the managing partner of MS Fish, and discussed the potential to source local fish, such as carp (cyprinids), trout, pike, and perch domestically. He also participated in an ACT sponsored aquaculture seminar in Zagatala where he made contacts with local fish farmers. After the seminar ACT staff facilitated visits for Mr. Mammadov to five trout farms in the NW area. The outcome of this activity resulted in long term supply contracts with three large trout farms.

In addition, aquaculture expert, Tom Ort, provided valuable advice to MS Fish regarding trout smoking techniques. He provided specific recommendations on cleaning, brining, filleting of fish and further advice on smoking temperature, packing and shelf-life practices. Technical advisors from the ACT project also assisted in the establishment of a new canning facility at MS Fish which had its official opening a month ago. At least 40% of the canned fish is planned to be sourced locally, and the annual processing capacity of the cannery is 5 million cans.

Success Story: Girkhbulag trout farm in Sheki increased production by 120 times!

Girkhbulag was one of the first fish farms that began to receive USAID technical assistance in 2009. Although by that time the farm had been privatized for a number of years, the operation was not profitable and did not cover the capital costs. Below is the list of achievements obtained by Girkhbulag due to implementation of the technical advice of ACT project staff:

- *Tripled water supply to the farm, which has expanded the carrying capacity of the raceways.*
- *The reorganized hatchery now has the capacity to spawn and hatch over a million fingerlings per year.*
- *A renovated feed mill and large storage area to produce carp feed.*
- *Construction of new channel at the outlet of the farm to allow the reuse of the same water flowing through the raceways. This alone allows for doubling of the production with minimal lump-sum cost.*
- *Repair and engagement of the second set of raceways nearby the original farm.*

ACT's targeted assistance resulted in phenomenal increase of production. As Mr. Hamid Mikaelov, the owner of Girkhbulag, said in his interview to the northwest TV channel, due to ACT's assistance the farm increased production from 0.5 MT to 60 MT annually. While a couple of years ago there were only two people working at the farm, today their number reached 8 employees. Mr. Mikaelov plans to expand his production further over the next year based on ACT recommendations to at least 100MT. The success continues in Sheki.

Oguz Trout farm assistance

Several months ago the project was approached by an entrepreneur in Oguz requesting assistance with establishment of a trout facility in the mountains above Oguz. The ACT Project assisted in every step leading to the creation of this trout farm, including siting the facility. ACT aquaculture consultant, Tom Ort, provided the design of the trout farm and gave specific recommendations on construction and fish raising practices. The entrepreneur has established a working relationship with AGBank and reached an initial agreement to receive a loan in the amount of 200,000 AZN. The overall cost to set up the trout farm is estimated to be 0.5 million AZN. DTL Farajov also met with AGBank senior management and provided information about the selected site and potential revenues of the planned trout farm in Oguz. This meeting became a determining factor in getting the bank to visit the location in Oguz in order to conduct a feasibility assessment.

ACT staff was invited to accompany the entrepreneur and AGBank's Deputy Chairman to travel to Oguz to meet with the Excom, his Deputy for Agriculture, and the Head of municipal power of that region. The details of purchasing/leasing the land from the state that was identified for the construction was discussed, and ACT staff gave a brief analysis of the entire value-chain and talked about business perspectives for the trout farm.

A final aspect of the trip was to provide technical assistance to the entrepreneur by carefully measuring water volume at the intake. ACT aquaculture consultant, Tom Ort, had roughly estimated the carrying capacity of water at around 250 MT, but additional, specific measurements were needed. This required spending one day building a dam and using special tools to perform the measurement. Findings exceeded the project's expectations. The intake is now over 750 liters per second, which means that the annual capacity of water can be at least 500 MT. Finally, ACT staff is assisting the entrepreneur from Oguz in developing a marketable business plan.

BDS development

ACT staff traveled to visit two potential BDS partners for pomegranates and apple. First the project visited the Imishli-Sabirabad region to visit the ARAZ Business Center. The team met with ARAZ Director, Lutveli Zeynallov, Agronomist, Dashgin Aghashov, Food Technologist, Aydin Valiyev, and association expert, Mahammad Ismayilov. Director Zeynallov made a presentation about ARAZ Business Center and shared information on the results ACT sponsored activities from July through September 2011. There was also a very enlightening discussion of the current condition of the pomegranate sector, sector constraints and developments. The trainings from November's visit from Israel pomegranate experts was also discussed, and the impact it would have on both the Aznar Company, who paid for the trainings, as well as on ARAZ and ACT staff.

The same ACT staff traveled to the Guba-Khachmaz region to meet with Kheyreddin Jabbarov, who is the Director of the Guba Marketing Center. The group discussed the activities and results from their participation in the ACT project from July through September of 2011. The group also discussed the current state of the apple industry. The project discussed the current activities of the Guba Marketing Center, and their increased activity in the tourism and beef cattle sectors.

ACT staff also met with a potential BDS partner Azerbaijan Agri-Input Dealers Association (AKTIVTA). Mr. Farid Firudunov (director) and Nizami Garayev (Pesticides Expert) gave an excellent presentation about the organization and its activities and services. He said that AKTIVTA has a very strong dealers' network in the Guba-Khachmaz region, with 22 large dealers from the region members of AKTIVTA. AKTIVTA's vision is to develop the agriculture sector, by creating competitive input markets and therefore improve the living standard of the rural population in Azerbaijan. AKTIVTA is an Azerbaijani agri-business nonprofit trade association. The members are dealers of fertilizers, crop protection chemicals, seeds, animal feed and other related agricultural inputs. AKTIVTA provides members with access to international market information, provides advocacy to develop sound policies and regulations for the agriculture sector, and encourages members to supply high quality seed, fertilizer, pesticides and other required inputs on time for the farmers to increase agricultural productivity. Finally, the project discussed collaboration with AKTIVTA on providing trainings to pesticide dealers in Guba and Goychay regions for apple and pomegranate production.

Association Formation

At the end of Q1, the Aquaculture Association in the Northwest received its official registration with the Ministry of Justice. The ACT Project has continued to provide assistance in developing the association. There have been several key strategic meetings of the association members where they selected the board of directors and the chairman. The ACT Project assisted in developing the three pronged functioning of the association:

1. Education and information. At least twice a month the association organizes training to the farmers in four northwest regions. Farmers get access to literature and individual technical assistance, which is free of charge for the members. They also get legal advice from the board lawyer on changes and new regulations in the aquaculture sector.
2. Lobbying and protection. One of the main reasons that farmers want to unite is to fight corruption and withstand unfavorable campaigns from the local authorities. In March the association addressed a letter to the Prime Minister requesting the formation of a commission to review the land usage issue that would permit pond owners to continue farming and not get shut down. Component 1 legal staff assisted in drafting the communication.

3. Collaboration. This is a very important aspect of the Association's functioning. In this field farmers participate in consolidated input procurement and consolidated sales, which brings tangible financial and organizational benefits. As nursing season starts, a hatchery owned by one of the founders of the association will sell the carp fingerlings 20% lower than market price to members of the association.

A membership fee structure has also been developed by the board of directors. The membership fee will be on an annual basis and the collection of fees is planned to start soon.

Food Safety and HACCP Compliance

In the second quarter, ACT project's two partners, Azsertifica and Quality Association, continued working with five client companies, and have completed on average 20% of the process of implementation so far. Some changes have been made to the program with Quality Association limiting its participation to the single company with which it is already working. Azsertifica is under contract to work with seven companies on the HACCP process, and is well underway with the original four that were selected. In addition, they have put under contract one company (InterPack of Ganja), and have begun the appraisal process with another (Azerstar of Zaqatala). Azsertifica has three other possible companies from which it can add to the program to complete its seven. ACT Food Safety consultant, Anna Vasylenko, continues to provide excellent technical back up for the partner companies, and newly appointed Food Safety Specialist Sabira Shikhaliyeva is providing management oversight for the HACCP project.

Work is continuing on the Consumer Safety Seal program, with an MOU completed, rating scale developed, and agreement to proceed from USAID. It is envisioned that the project will use HACCP clients as initial recipients of the Consumer Safety Seal as a test of the policies and procedures of obtaining a certificate.

In February, consultant, Anna Vasylenko, co-led a workshop on food safety at the Azerbaijan State Agrarian University that was jointly taught with a consultant from USDA. Three food safety manuals for dairy, beef and fruits and vegetables were also produced in Russian, and are in the process of being translated into Azeri. The workshop was well received, consisting of a week of classroom training and a week of field work, which included a visit to a new HACCP client and a potential small scale HACCP project for a small, women-owned bakery.

Cold Chain Development

In February, ACT staff accompanied USAID's Guy Lawson to visit one of our cold storage pilot companies, Meyvachi Resid LLC, which has extended its storage season by two months and increased the variety of fruit stored under the guidance of ACT project technical experts. In addition, another cold storage facility, owned by Mammadhussein Mammadov, was visited, which also profited from advice from the ACT project by increasing the types of fruit stored and making

some key physical changes to the facility.

Activity 3.C: Improve and Expand Knowledge of Agricultural Best Practices



This activity puts the focus on the farmer, with the goal of raising production (quantity), productivity (yields), and quality of the targeted value chains. These activities complement Activity 3.B to ensure that all constraints in the value chain are addressed, and in particular the need for processors and traders to be able to source greater quantities and better quality fruits, fish, and dairy products.

Specific activities include farmer training on improved farming and animal raising techniques, development of demonstration sites, development and provision of training materials, and assistance in developing the public and private agriculture extension system in Azerbaijan. These activities support indicator 3.1 in the ACT Project PMP, which is the number of individuals that have received USG supported agriculture sector productivity training. With the addition of our staff of local experts, the ACT project trained 1,308 farmers in the quarter, which is a significant improvement over the 43 farmers trained in the first quarter.

Key accomplishments and highlights by sub-activity are as follows:

Sub-Activity 3.C.1: Education/Extension

In the second quarter, the ACT project hired all six local experts, and held an introductory workshop. In addition, an international consultant was hired full time to ensure that the local experts were all using effective extension techniques, training materials were uniform and effective, and farmer training efforts of local experts and implementing partners would be coordinated. To date, training materials for the dairy sector have been completed, and materials for other value chains will be completed early in Q3. Training equipment for the horticulture (pruning shears, saws, and sprayers) and aquaculture (tool kit, water quality measurement) local experts were purchased and distributed. Supervisory visits were made to all of the local experts, and intensive training of the trainers was conducted for the dairy local experts and implementing partner.

The local experts were all hired because of their extensive knowledge of their value chain and because of the respect they command in their communities. They have gotten off to an excellent start, and have conducted training as follows:

Success Story: Pomegranate Farmers Adopt Intensive Orchard Technique

Since local expert, Zaur Hajiyeu, started working with the ACT project on January 13, he has launched into his work wholeheartedly. His natural leadership and training abilities have led him to convince just over 100 farmers to adopt a complete renovation strategy for their orchards. This requires them to conduct a very heavy pruning, turn over the ground between rows, improve irrigation, commit to orchard maintenance, and to plant new saplings between heavily pruned trees to provide for an intensive style of production. These farmers have over 150 hectares of pomegranates, and when fully productive in three to five years, the orchards will produce several times more pomegranates per hectare than the current quasi-abandoned style they had previously. For an example, please see photos below that show the condition of one of the orchards in January, and what it looks like now. The project is very pleased to have Mr. Hajiyeu on our staff, and can already see the impact he is making.



Overgrown, poorly managed pomegranate orchard in January 18, 2012



Same orchard on April 11, 2012 after undergoing a complete renovation due to the advice of ACT local expert

Summary of Farmer Training in the Quarter

Value Chain	Farmer Participants
Pomegranates	234
Apples	268
Hazelnuts	264
Aquaculture	145
Dairy	397
<i>Total</i>	<i>1,308</i>

Sub-Activity 3.C.2: Demonstration Farms

The year 2 workplan indicates that five demonstration sites should be prepared this year. To date the ACT project has made significant progress, completing one, having concept approval for seven more, and considering an additional five sites. The one that is already in operation is a hazelnut demonstration site in Zaqatala that was created as a result of the ACT project coordinated efforts with the Ferrero company of Italy (one of the world's largest importers of



hazelnuts), Azerstar (local hazelnut processor), and GIZ (provided training and support to Ferrero agronomists). In late March, the ACT project facilitated the shipment of 1,000 saplings that were donated by Ferrero from its operations in Georgia to the demonstration site that was purchased by the Azerstar company for this purpose on a main road just outside of Zaqatala. Ferrero agronomists flew from Italy to oversee the planting and design of the 1.5 hectare orchard. Planting was completed on March 25. In addition to providing shipping, customs clearance, and phytosanitary certification, the ACT project also identified the best location for the demonstration site, and met with the Excom to receive his blessing for the project. The site will be utilized by the ACT project local expert and implementing partner to train local experts on proper orchard design and management, and also will serve as a test plot for other hazelnut varieties.

The ACT local expert for apples, Islam Behyramov, in Guba has designed an excellent set of six demonstration plots, with two plots each demonstrating IPM (Integrated Pest Management), nursery design, and intensive cultivation. These plots will be utilized to show farmers about proper management of their existing orchards (IPM), or to show them new and more profitable ways to support the growth of the apple industry (nurseries), or ways to increase yield per hectare significantly (intensive cultivation).

The demonstration site for aquaculture will include a carp hatchery in the Neftchala area. The other potential site in Oguz was considered to be too remote to serve as a good demonstration site, plus it would be difficult to determine whether future staff would follow good management practices. However, the Neftchala site is at an excellent location, on the site of a farmer that has had the initiative to build a basic hatchery for carp and is willing to expand his knowledge to other potential carp hatchery operators. Carp hatcheries are currently one of the key limiting factors in carp production. It is expected that this demonstration site will assist greatly to advance the development of the carp industry in the southern part of the country.

In terms of dairy demonstration farms, some proposals were developed by our implementing partner for dairy in the south. These sites were investigated and found to be unsuitable due to either location or farmer capacity. In addition, the proposed sites were well above the available budget for demonstration sites. At this time, the ACT project may consider some low cost, but essential, forage demonstration plots to address one of the key problems in the dairy sector, the lack of sufficient high quality feed. The goal is to have the forage demonstration sites identified, designed and installed in Q3.

Activity 3.D: Improve Access to Finance for SMEs and Farms, particularly in Rural Areas

Sub-Activity 3.D.1: Agricultural/Rural Lending and Leasing

This activity seeks to increase the amount of lending and leasing in the agriculture sector by developing the capacity of selected commercial banks and a bank training center in order to encourage them to provide more services and loan products to the agriculture sector. In addition, seminars on how to access financial services are planned to be held by ACT project BDS partners around the country to assist farmers in accessing loans. This push-pull strategy will greatly improve access to finance for the agriculture sector. These activities support the ACT Project PMP indicators 3.13 (number of new agricultural loans) and 3.14 (percent change in the value of agricultural loans). In the second quarter, the numbers for indicator 3.13 totaled -839, due to the fact that the partner banks have not been collecting numbers of new agricultural loans, but changes to numbers of active clients in partner banks. Due to seasonality, the numbers of active clients dropped slightly during the last quarter in agricultural lending. However, the number over the past year is higher than it was at this time last year. The percentage increase in value of the agricultural loan portfolio increased 3.3 percent during the quarter.

In the second quarter, the ACT project hosted two financial consultants, Arelis Gomez and Robin Bell, to continue working with our Partner Institutions (PI), where they advised on and developed manuals, procedures and guidelines in coordination with the credit and/or MSE departments of the PIs, with the goal of improving internal procedures to allow them to increase their lending to agricultural concerns. In connection with this work, they have provided a total of 464 credit policy recommendations to the partner institutions and helped each of the three banks to develop two new products each (for a total of six new products). These policies are in the process and/or have been introduced in each of the financial institutions. It is worth noting that the usefulness of the recommendations is further highlighted by the fact that Demir Bank has introduced many of the policy recommendations to the consumer loans as well. In addition, the consultants developed extensive training materials and provided intensive training sessions to 102 employees in pillars of microfinance, risk analysis, promotion and marketing, and early fraud alerts.

In addition, another bank training service provider was identified – Azerbaijan Risk Professionals Association (ARPA) – which will be advised by the ACT project on strengthening and expanding its training capacity to the financial industry. This group will likely replace the Azerbaijan Bank Training Center as a recipient of ACT project advisory assistance. In addition, they may become more active in direct training of our FIs in the last year of the project.

Issues/Constraints in Component 3 in Q2

The biggest issue was a slower than expected approval process, which combined with new complications in the contracting procedure for project BDS partners, has caused delays in work with these important partners. Initially, the project intended that the BDS partners would be hired first, and the local experts would adapt to their schedule, but the opposite occurred. Fortunately, given the excellent quality of our local expert staff, this may be a preferred outcome, as some of the local experts are capable of training the BDS partner staff. Creation of training materials also proved to be a bigger challenge due to difficulty in translating technical terms and working through a raft of training materials from various sources.

Planned Activities for Q3

In Q2, the project moved from planning into action. For Q3, component 3 will be fully staffed, and ready to begin a large-scale farmer training program. The project will also be investigating new ways to assist in building up the capacity of its BDS partners, along with its continuing support to SMEs and agribusinesses. By activity, the project plans to do the following in Q2:

Market and Other Analysis

Activities completed in early Q2, and no further activities are planned for Q3. However, the ACT project will remain vigilant to any opportunities that present themselves, and will continue to expand in the targeted value chain areas.

Direct Value Chain Assistance

The project expects to begin work with its BDS partners in Q3 once it executes contracts with the four USAID approved partner organizations. ACT will continue to look for ways to provide targeted technical assistance to companies and firms in the value chains, while seeking ways to develop the BDS partners themselves. Specific activities and events that are planned in Q3 include:

- Continue to support the development of the trout farm in Oguz and the expansion of MS Fish in Baku.

- Form a GDA with AgriGeorgia, USAID/EPI (Georgia) and the ACT project to expand cooperation on training and demonstration site support for the hazelnut sector; analyze the possibility of doing a GDA to support a hazelnut processor.
- Work intensively with new and returning BDS partners to develop value chain development activities to assist SME's, processors, traders, and input suppliers to more intensively support the value chain.
- Sign contracts with four companies to provide HACCP training, and conduct three risk analysis workshops.
- Facilitate the attendance of four executives of Aznar pomegranate processor to a trade show in Korea.
- Study the apple market to prepare for increased role of the cold storage sector.
- Continue to send hazelnut experts for third and fourth training sessions in Georgia that are being provided by the Ferrero Company's subsidiary AgriGeorgia in Georgia.
- Analyze reports of cold storage failures and design training for Q4 to assist in ameliorating the situation.
- Continue to work on any opportunities for association development as they arise.

Education/Extension

ACT efforts for training large numbers of farmers in our five value chains began in earnest in Q2 with the newly hired local experts. BDS partners are expected to be put under contract in Q3, and their efforts should greatly increase outreach and farmer trainings should at least double. In early Q3, all training materials for local experts and BDS partners will be completed, produced, and distributed to program trainers. Regular mentoring visits will be made to ensure that trainers are using best practices, and needs for additional staff training are identified. Curricula will be developed and disseminated and annual training plans will be developed.

Demonstration Farms

In Q3, seven demonstration sites will be installed (six for apple, and one carp hatchery), while we continue to monitor and incorporate the hazelnut demonstration site into farmer trainings. In addition, we will look for sites for complete orchard renovation for hazelnuts in conjunction with AgriGeorgia (Ferrero), where we will demonstrate how to renovate an orchard while maintaining

income. Finally, the project will seek several forage demonstration sites in the south and central regions to demonstrate proper forage production in an effort to provide higher quality feed which will have an impact on milk production.

Agricultural/Rural Lending and Leasing

For Q3, the ACT finance consultants will continue with an intensive training and mentoring program for the four partner banks that are working with the ACT project in order to build their capacity to increase agricultural lending. In addition, work will begin with a newly selected bank training group, Azerbaijan Risk Professionals Association (ARPA) to strengthen their training capacity. A plan for beyond Q3 will be developed, which may include continued capacity building at banks and training institutions, as well as some direct access to finance training in conjunction with our BDS partners, as well as individual counseling to agribusinesses seeking credit.

Coordination with other Donor Projects

In addition to activities already discussed above in cooperation with IFC, GIZ and the EU, the project during the quarter continued efforts to coordinate with other donors and related projects at a higher level. The ACT project hosted the joint donor working group on trade and business environment reforms and non-oil sector development in late March. As a result of this meeting, the group agreed to send a joint letter to the Office of the President offering continued support to the GOAJ and its efforts to develop its plan 2020. In addition, the project in cooperation with IFC hosted the agriculture working group meeting. This meeting included a teleconference with IFC regional representatives to get a better understanding of what others are doing to support agriculture development. As a result of this meeting, it was agreed that the group would send a letter along with the project's developed agriculture policy agenda to the Office of the President. However, the project subsequently met with the Head of the Agro-Policy Department and provided the document in person as well as electronically. The objective of the working group level meetings was to be able to report technical level results to the umbrella donor group concerned with socio-economic related issues. The project provided an update as well in this higher level meeting late in March.

Cross Cutting Activities

Monitoring and Evaluation

The following table provides the status of indicators for the quarter in comparison with the agreed upon targets.

Monitoring Reporting for FY2, Qtr 2

Indicators ²	Cumulative Actuals FY1 ³		Targets FY1	Data for FY2 QTR 1		Data for FY2, QTR 2		Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments
1-2.1 Number of direct exposures of public education/advocacy	M	F	670	M	F	M	F	278	600	700	
	520	150		138	33	63	44				
1-2.2 Number of indirect exposures of public education/advocacy	7		7	4		4		8	14	21	
1-2.3 Number of institutions/organizations undertaking capacity/competency strengthening as a result of USG assistance ⁴				1		0		1	12	0	
Component 1											
1.1 Implementation of modern risk assessment in line with international best practices by the Central Bank	No		No	No		No		No	Yes	Yes	Not adopted. Work frozen.
1.2. Number of people trained in using the outputs of the risk assessment system for banks at the Central Bank	0		0	0		0			40	40	In process however on hold until next steps are agreed with CBA.
1.3. Number of people trained with the goal of improving or working more effectively with the business enabling environment	M	F	194	M	F	M	F	29	100	100	Training was provided to the CBA Supervision department on AML/CFT concepts and requirements
	127	67		0	0	27	2				
1.4. Number of agencies that introduce improvements into their food safety inspection regimes as the result of project assistance ⁵	0		0	0		0		0	2	2	Still getting started
1.5. Number of agencies that have adopted methodologies for measuring impacts of their regulatory proposals as the result of project assistance ⁶	0		0	0		0		0	2	2	Still getting started

² As per draft PMP, to be resubmitted in FY 2, Qtr 3

³ FY1 targets for indicators 1-2.1, 1-2.2, and all Component 1 indicators are actuals.

⁴ New cross-cutting indicator, introduced December 7, 2011 by USAID.

⁵ Per correspondence between COP and USAID indicators 1. 4 and 1.5 were adopted in November 2011 to cover administrative barriers.

Indicators ²	Cumulative Actuals FY1 ³				Targets FY1	Data for FY2 QTR 1	Data for FY2, QTR 2	Cumulative Actuals FY2	Targets FY2	Targets FY3	Comments					
1.6. Number of people completing a project-supported E-learning program on AFL/CFT	0				0	0	0	0	200	1000	Still in development					
1.7. Number of currency transaction reports sent from reporting entities to the Financial Monitoring Service	188,030				188,030	59,113	51,708	231,708	180,000	200,000						
1.8. Number of suspicious transaction reports sent from reporting entities to the Financial Monitoring Service ⁷	18,623				18,623	3,963	92	4055	25,000	20,000						
1.9.Number of cases referred from the Financial Monitoring Service to the appropriate prosecuting authority	10				10	1	4	5	3	3						
1.10. Number of cases referred by the Financial Monitoring Service that result in the initiation of prosecutory proceedings	1				1	0	0	0	1	2						
1.11.Number of business environment laws, regulations, or administrative procedures drafted, submitted for public/stakeholder consultation, submitted for legislative consideration, or passed/ approved ⁸	drafted	Submitted for	Submitted for	Passed/approved	drafted	Submitted for	Submitted for	Passed/annroved	drafted	Submitted for	Submitted for	Passed/approved	2	10	10	Law on Licensing and Permits underwent drafting; E-commerce package was submitted for legislative consideration (albeit to the Office of the President)
	3	1	1		3	1	1			1						
Component 2																
2.1. Number of USG supported training events that relate to improving the trade and investment environment	8				8	0	0	0	8	8						
2.2.Number of participants in trade and investment environmental trainings	M	F			120	M	F	M	F	0	80	100				
	52	16				0	0	0	0							
2.3.The number of new requests, offers, revised offers, or other formal text that are submitted by a host country as part of international trade talks attributable to USG assistance	2				5	2	2	4	5	5	The government has sent revised offers on services two times, one in February and one in March. Other official documents were sent in October and December, 2011					

⁶ Per correspondence between COP and USAID indicators 1. 4 and 1.5 were adopted in November 2011 to cover administrative barriers. A previous indicator of “demand deposits placed in banks by households” was dropped.

⁷ The Financial Monitoring Service recently revised its definition of suspicious transactions. The new definition excludes transactions with high risk countries and by politically exposed persons. This may require a revision to the targets.

⁸ This indicator was number 1.12 in the annual report, and 1.11 on the number of government institutions undertaking cost-benefit analysis in line with international best practice standards was dropped per discussions with USAID.

Indicators ²	Cumulative Actuals FY1 ³			Targets FY1	Data for FY2 QTR 1	Data for FY2, QTR 2			Cumulative Actuals FY2			Targets FY2	Targets FY3	Comments	
2.4. Number of bilateral, plurilateral, and multilateral meetings toward negotiating accession to agreements, conventions, and international organizations	bilateral	Plurilateral	Multilateral	5	0	Bilateral	plurilateral	multilateral-	Bilateral	plurilateral	Multilateral	6	5	ACT Project helped the government on preparing revised offers and other documents such as questions and replies, revision of factual summary and as a request of this government had the following meetings: 1. Bilateral meetings on goods and services with US, EU, Japan, Norway, and Canada 2. Plurilateral and multilateral meetings at the WP meeting	
	0	0	1			6	1	1	6	1	1				
2.5.Number of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from USG-assisted organizations	6			6	drafted	In process	submitted	approved	drafted	in process	submitted	approved	6	6	ACT helped the government to draft regulations for implementation of the Customs Code
					0	1	0	0	5	0	0	0			
Component 3															
3.1.Number of individuals who have received USG supported short-term agricultural sector productivity training	M	F	1,000	43	1,308	1,351	9,000	12,000							
	939	118													
3.2.Number of firms receiving USG supported assistance to improve their management practices	80			40	98	0	98	40	140						
Indicators 3.3-3.12 Annual only															
3.13. Number of new agricultural loans or leasing agreements made by financial institutions receiving project assistance. ⁹	5417			5417 ¹⁰	2315	-839	1476	10,973	8,431						
3.14. Percentage change in the value of agricultural loans or leasing agreements made by financial institutions receiving project assistance ¹¹ .	26%			26%	12.6%	3.3%	15.9%	55%	30%						

⁹ Partner banks have not been collecting numbers of new agricultural loans, but rather changes to numbers of active clients in partner banks. This indicator will be modified to reflect this in the revised PMP. The numbers of active clients dropped slightly during the last quarter due to seasonality in agricultural lending.

¹⁰ FY1 targets for indicators 3.13, 3.14 are actuals.

¹¹ This indicator will be modified in the revised PMP to “percentage change in the value of overall portfolios of agricultural loans or leasing agreements made by financial institutions receiving project assistance.”

Financial Reporting

The table below provides a breakdown of costs by category for Q2 FY 2012 (January 1-March 31, 2012).

Categories	Vouchered Jan 1 – Mar 31, 2012 (US\$)	Vouchered Oct 1, 2010 – Mar 31, 2012 (US\$)
Technical assistance		
<i>Expatriates (US and TCN):</i> Long-term Technical Assistance	271,687	1,480,189
<i>Expatriates (US and TCN):</i> Short-term Technical Assistance	370,179	3,323,394
<i>Local Staff</i>	394,481	1,978,133
LTTA Allowances	52,626	342,842
Training Expenses	22,813	240,161
Administrative Expenses		1,518,844
Travel/Transportation/Housing/Office Rent	198,025	
Equipment & Vehicles	6,798	165,989
Other (Communications and Delivery, Bank Charges, Translation/Editing Services, Occasional Labor, Passports and Visas, Local CCN Social Costs, Legal Costs, etc.)	99,942	896,011
G&A	45,624	379,661
Grants	0	0
TOTAL	1,462,175	10,325,224

Communications and Outreach

During Year 2 Quarter 2 the Project implemented the following TV and news outreach activities:

Name	Description\Topic	Attended	Date
<p>“Economic Forum” program on ANS TV</p> <p>Topic: <i>WTO Accession and Agricultural Subsidies</i></p>	<p>Discussions evolved around current subsidies and their role in the economy, green box subsidies and their advantages and necessary future actions.</p> <p>http://www.youtube.com/watch?v=ov1oJfJlOOU</p>	<p>The program was attended by</p> <ul style="list-style-type: none"> - Elkhon Mikayilov, USAID\ACT Project’s Component 2 Team Leader; - Harry DeGorter, USAID\ACT Agricultural Policy Expert; - Vahid Maharramov – Expert of Economic Research Center. 	21.01.2012
<p>“Economic Forum” program on ANS TV</p> <p>Topic: <i>Aquaculture: Challenges and Perspectives</i></p>	<p>Participants discussed problems related to aquaculture in Azerbaijan and its perspectives.</p> <p>http://www.youtube.com/watch?v=2b7YRT1YpmQ</p>	<p>The program was attended by</p> <ul style="list-style-type: none"> - John O’Connell – USAID\Azerbaijan Competitiveness and Trade Project’s Component III Team Leader - Tarek Mammadov – Deputy Director of Aquaculture Institute under Ministry of Environment and Natural Resources; - Vahid Maharramov – Expert of Economic Research Center; - Galib Togrul – Expert of Economic Research Center 	28.01.2012
<p>“Social Life” program on Kanal S (Sheki)</p> <p>Topic: perspectives of aquaculture</p>	<p>Participants discussed perspectives for development of aquaculture in Azerbaijan</p>	<p>The program was attended by</p> <ul style="list-style-type: none"> - Yashar Farajov – USAID\Azerbaijan Competitiveness and Trade Project’s Component III Deputy Team Leader - Tom Ort – USAID\ACT Project’s international expert; 	09.02.2012 (repeated on 10.02.2012)
<p>“Economic Forum” program on ANS TV</p> <p>Topic: <i>Secured transactions</i></p>	<p>Participants discussed draft law on secured transactions and its implications and benefits for customers and the financial sector.</p>	<p>The program was attended by</p> <ul style="list-style-type: none"> - Everett Whohlens - International Expert - Daniel Fitzpatrick - USAID\Azerbaijan Competitiveness and Trade Project’s Component I Team Leader Altay Mustafayev - lawyer 	11.02.2012

Fixed Price Contracts

The following fixed price contracts were signed in in FY2012 Q2 (January 1, 2011 –March 31, 2012).

AR Number	Contract #	Contracted Amount (AZN)	Organization	Value Chain/Subject Area	Region	Period of Performance
69	04	12,000.00	Sabit Bagirov	TV program on trade and investment issues	N/A	27 April 2011- 28 Feb 2012
113	06	25,320.00	Economic Research Center	DRC Lead Firm	Salyan, Neftichala, Sheki,	27 June 2011- 30 Jan 2012
112	09	16,985.00	Azerbaijan Agribusiness Center	DRC Support Firm	Salyan, Neftichala, Sheki, Zagatala, Baku	27 June 2011 - 30 Jan 2012
136	16	70,000.00	Azsertifika Consulting firm (phase 2)	HACCP implementation - 2 Phase	Goychai, Lenkaran, Agdash	3 October 11 - 30 April 113
137	17	30,000.00	Quality Association Public Union (phase 2)	HACCP implementation - 2 Phase	Baku	3 October 11 - 30 Sept 12
153	18	16,455.70	Isgandarov&Partners	Mapping the Process for Starting and Operating Two Illustrative Businesses	Baku, Mingechavir, Neftichala	5 Dec 11 - until the date that the final payment is made, unless the subcontract has not otherwise been terminated or amended

Annex 1A – Legislative Tracking: Domestic Business Enabling Environment as of March 31, 2012

Legislative Status

As of March 31, 2012

At Parliament:

Draft Legislation	Comments
1. Draft Competition Code	Currently on the Parliament's agenda for the spring session (2012). No discernable movement over some time. It is possible that proposed alternative draft developed by the project, as well as memorandum submitted by the European Union's Parliamentary Twinning Project, has checked the advance of the original draft that the project had deemed to be outside international best practices last year.

At President Office:

Draft Legislation	Comments
2. None currently	

At Cabinet of Ministers:

Draft Legislation	Comments
3. Draft Law "Establishment of a Unified Cadastre of Real Estate"	It was submitted by the State Committee on Property Issues with many of the proposed revisions of the project adopted. However, another version of the law, prepared by the State Land and Cartography Committee, is circulating as well.
4. Draft Law on "Licensing and Permits"	It was submitted by the Ministry of Economic Development with many of the proposed revisions of the project adopted.

At Ministerial Level:

Draft Legislation	Comments
5. Draft Amendments to the Tax Code	These apparently are under development, but the project has not yet seen any drafts.
6. Draft Law on "Secured Transactions"	The Central Bank has agreed to champion the law, but wishes to see the draft law restructured to address structural issues (e.g., to what extent should substantive provisions be in the Civil Code, rather than a stand-alone law?) and to have related

Draft Legislation	Comments
	legislation amended as part of a complete package.

Annex 1B – Legislative Tracking Trade Environment as of March 28, 2012

At Parliament:

None at the end of March 2012.

At President Office:

Draft Legislation	Comments
7. Draft Law “On Technical Regulations”	Finalized at the President Office Legal Department. Sent back to Cabinet in order to obtain final visas. ACT will conduct final review.
8. Draft Law “On Securing Intellectual Property Rights and Combating Piracy”	Finalized at the President Office Legal Department. Circulated internally in President Office in order to obtain final visas before submission to the Parliament. Additional improvements to be introduced before second reading at Parliament.

At Cabinet of Ministers:

Draft Legislation	Comments
9. Draft Law “On Protection of Rights of Broadcasting Organizations in Digital Network”	In Cabinet of Ministers. No outstanding issues.
10. Draft Amendments to the Law “On Food Products” No.759-IQ dated November 18, 1999	Draft has been agreed with all agencies except State Committee on Standardization, Metrology and Patents. Once agreed with them, draft will be submitted to President Office.
11. Draft Amendments to the Law of the Republic of Azerbaijan “On Sanitary and Epidemiologic Welfare” No.371 dated November 10, 1992	At Cabinet of Ministers. Ready for submission to the President Office.
12. Draft Cabinet of Ministers Resolution “On Declaration of Works to be Fallen Into Public Domain”	At Cabinet ready for approval.

Draft Legislation	Comments
13. Draft Cabinet of Ministers Resolution “On Minimum Tariffs for Use of Subject Matters of Related Rights”	At Cabinet ready for approval.

At Ministerial Level:

Draft Legislation	Comments
14. Draft Amendments to the Rules “On Rules of Issuance of Special Permission (Licenses) for Some Types of Activities” approved by Decree of the President No.782 dated September 2, 2002	A legal working group was established to revise this Draft to ensure greater conformity with the WTO Agreement on Import Licensing Procedures. It has been agreed to set the fees for alcohol, tobacco, and precursors licenses on line with GATT Article VIII.
15. Draft Law amending Law on Standardization	Draft is being revised
16. Draft Law on Accreditation of Conformity Assessment Bodies	Draft has been finalized at the State Committee for Standardization, Metrology, and Patents taking most recent comments by ACT.
17. Draft Amendments to the Law on Customs Tariff	Draft is submitted to Cabinet. Interpretive notes and valuation of software has been included in the draft. Ministry of Justice is objecting to the inclusion of interpretative notes in the Customs tariff law. ACT will be reviewing this Draft.

“Second Legislative Action Plan”

At Cabinet of Ministries

Draft Legislation	Comments
18. Amendments to the Law of Azerbaijan Republic on Commercial Secrets, No. 224-IIQ dated 4 December 2001	At Cabinet of Ministers. Ready for submission to the President Office. ACT will work with President Office to introduce additional improvements.
19. Amendments to the Law of Azerbaijan Republic on Legal Protection of Topologies of Integral Schemes”, No. 337-IIQ dated 31 May 2002	At Cabinet of Ministers. Ready for submission to the President Office. ACT will work with President Office to introduce additional improvements.
20. Amendments to the Civil Procedural Code of Azerbaijan Republic No. 780-IQ dated 28 December 1999	At Cabinet of Ministers. Ready for submission to the President Office.

Draft Legislation	Comments
21. Amendments to the Criminal Code of Azerbaijan Republic, No. 787-IQ dated 30 December 1999	At Cabinet of Ministers. Ready for submission to the President Office. ACT will work with President Office to introduce additional improvements.
22. Amendments to the Code of Administrative Offences of Azerbaijan Republic, No 906-IQ dated 11 July 2000	At Cabinet of Ministers. Ready for submission to the President Office.
23. Draft Resolution of Cabinet of Ministers on “some issues related to the granting international standard numbers to books, periodic publications, audiovisual works and audio records	At Cabinet of Ministers. Ready for adoption.

At Ministry of Economic Development/Ministry of Justice:

Draft Legislation	Comments
24. Amendments to the Law on Phytosanitary Control, No. 102-IIIQ dated 12 May 2006	Draft has been finalized by the Ministry of Justice and forwarded to Ministry of Economic Development for further submission to the Cabinet of Ministers.
25. Amendments to the Law on Veterinary - No. 922-IIQ dated 31 May 2005	Draft has been finalized by the Ministry of Justice and forwarded to Ministry of Economic Development for further submission to the Cabinet of Ministers.
26. Draft Law on Anti-Dumping, Safeguards and Countervailing Measures	Draft Law is being further fine tuned at the Ministry of Economic Development (MOED) level.
27. Draft Law on Foreign Trade Activity	Draft Law is being reviewed by the Ministry of Justice. ACT provided comments to the Ministry of Justice.

At Ministerial Level:

Draft Legislation	Comments
28. Draft Law on Plant Variety	Draft finalized at the Ministry of Agriculture taking into account ACT review and additional suggestions for improvements
29. Draft Resolution of Cabinet of Ministers on Approval of “Rules for determination of the amount of claim related to the violation of the copyright and related rights”	Draft has been submitted to the Cabinet of Ministers
30. Draft Resolution on Implementation of Interpretative Notes for Customs Valuation	Included to the draft Customs Tariff Law

Adopted Legislation

Laws

1. New Customs Code of Azerbaijan Republic, adopted by Parliament on June 24, 2011
2. Amendments to the Law of the Republic of Azerbaijan *"On Normative Legal Acts"* No. 761-IQ, dated November 26, 1999
3. Amendments to the Law *"On Currency Control"* No. 910, dated October 21, 1999 (A)
4. Amendments to the Law *"On State Duty"* No. 223-IIQ, dated December 4, 2001
5. Amendments to the Tax Code of the Republic of Azerbaijan, approved by the Law of the Republic of Azerbaijan No.905-IQ, dated July 11, 2000
6. Amendments to the Law of the Republic of Azerbaijan *"On Copyright and Related Rights"* No. 115-IQ, dated July 5, 1996
7. Amendments to the Law of the Republic of Azerbaijan *"On Viticulture and Wine-Making"* No. 208-IIQ dated October 19, 2001
8. Draft Amendments Law of the Republic of Azerbaijan *"On Customs Tariff"* No.1064, dated June 20, 1995
9. Draft Amendments to the Law of the Republic of Azerbaijan *"On Trademarks and Geographical Indications"* No. 504-IQ, dated June 12, 1998
10. Draft Amendments to the Law of the Republic of Azerbaijan *"On Tobacco and Tobacco Products"* No. 138-IIQ dated June 8, 2001
11. Draft Amendments to the Law of the Republic of Azerbaijan *"On Patents"* No.312-IQ dated July 25, 1997

President Decrees

12. Draft Amendments to President Decree 619 of December 26, 2001
13. Draft Amendments to Decree of the President *"On Further Liberalization of Foreign Trade in the Republic of Azerbaijan"* No.609 dated June 24, 1997

Sublegal Acts

14. Amendments to the Resolution of the Cabinet of Ministers *"On Rates of Customs Duties for Import and Export Transactions and Amount of Fees Charged on Customs Clearance in the Republic of Azerbaijan"* No.80 dated April 12, 2001
15. Amendments to the Resolution of the Cabinet of Ministers *"On the Rates of State Fees on Issuance of Special Permissions (Licenses) for Activities Requiring Special Permissions (Licenses)"* No.180 dated 18 November 2002
16. Amendments to the Resolution of the Cabinet of Ministers *"On the Rules for Customs Valuation Methods for Goods Imported into and Exported out of the Republic of Azerbaijan"* No.7 dated January 12, 1998
17. Amendments to the Resolution of the Cabinet of Ministers *"On Approval of the Rules of Determination of Origin of Goods"* No.202 dated November 2, 2000
18. New Resolution of the Cabinet of Ministers *"On Rules on Determination of the Minimum Amount, Distribution and Payment of the Author's Royalty for Reproduction of Works and Audiovisual Works from Phonograms for Exclusively Personal Purposes"*
19. Draft Amendments to Cabinet of Ministers *"On Rates of Fees Paid for Currencies Taken of the Republic by Resident Physical Persons"* No. 79 dated 17 May 2002

20. Draft Amendments to Resolution No. 140 “On Approval of Additional Rules and Regulations for the Purpose of Protection of the State Border of the Republic of Azerbaijan” dated March 9, 1993
21. Cabinet of Ministers Order establishing National Codex Point was adopted
22. Decision of State Committee for Standardization, Metrology, and Patents on Establishing TBT Enquiry Point was adopted
23. Cabinet of Ministers Order “On Application of Set of Codex Alimentarius Standards” dated 23 July, 2010 establishing National Codex Point

Other Related Laws (not on agenda):

24. Law on Ecologically Clean Agriculture No. 650-IIIQ dated 13 June 2008
25. Law on Special Economic Zones No. 791-IIIQ dated 14 April 2009
26. Amendments to the Law on Public Procurements No. 245-IIQ dated 27 December 2001 (concerning establishing an official website on public procurement) – adopted as one of the seven laws considered as package for combating corruption

Annex 2 – Capacity Building

Component	Name of the Event	Type of the Training	Start Date	End Date	Training Provider	Training Provider's Address	# of Participants-Male	# of Participants-Female
1	Excel Training for FMS staff	Training	1/16/2012	1/19/2012	ACT Project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	6	2
2	Roundtable on Tariff Rate Quota	Roundtable	1/18/2012	1/18/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	6	2
2	Roundtable on Subsidies	Roundtable	1/18/2012	1/18/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	0	2
3	Aquaculture Domestic Resource Cost (DRC) Analysis	Presentation	1/24/2012	1/24/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	25	6
2	WTO TBT Agreement and	Presentation	1/26/2012	1/26/2012	ACT project	133 Bashir	9 ¹²	6 ¹³

¹² Estimate

¹³ Estimate

Component	Name of the Event	Type of the Training	Start Date	End Date	Training Provider	Training Provider's Address	# of Participants-Male	# of Participants-Female
	Changes in Standardization System					Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan		
2	Food Hygiene WG meeting and Codex Alimentarius	Working group meeting	1/31/2012	1/31/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	8
2	Codex Maximum Residue Limits for Pesticides	Working group meeting	2/7/2012	2/7/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	6	9
2	Conversion of Mandatory Standards to Voluntary	Working group meeting	2/28/2012	2/28/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	7	3
2	Non-oil sector, investment and trade coordination meeting	Meeting	3/9/2012	3/9/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	5	2
3	Agriculture Sector Donor meeting	Meeting	3/9/2012	3/9/2012	ACT Project	133 Bashir Safaroglu str. SAT Plaza,	8	4

Component	Name of the Event	Type of the Training	Start Date	End Date	Training Provider	Training Provider's Address	# of Participants-Male	# of Participants-Female
						15th floor Baku, AZ1009, Azerbaijan		
2	Regular Meeting of Technical Working Group on National Residue Monitoring Plan	Meeting	3/14/2012	3/14/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	1	2
1	Intellectual Property Roundtable	Roundtable	3/15/2012	3/15/2012	ACT project	133 Bashir Safaroglu str. SAT Plaza, 15th floor Baku, AZ1009, Azerbaijan	9	1